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SUBJECT: COLOMBIA ENERGY UPDATE: MORE BLOCS, GAS PROSPECTS,
AND BIOFUELS

REF: BOGOTA 4088

¶1. (SBU) SUMMARY. Colombia's energy sector continues its solid expansion in spite of the recent decline in oil and gas prices. The National Hydrocarbons Agency (ANH) has adjudicated 100 exploration contracts in 2008--a new record--and concluded two successful bloc auctions during the year. On the operational side, oil production has increased almost 100,000 barrels per day (bpd) since 2007 and BP recently announced promising offshore gas prospects in two existing blocs near Cartagena. Beyond hydrocarbons, Alcol Rio Suarez announced the initiation of Colombia's largest ethanol plant and the GOC signed an arrangement with Puerto Rico to study the feasibility of a submarine cable link for Colombia to supply electricity to Puerto Rico. END SUMMARY.

Auction of 43 More Blocs Concludes Record Year

¶2. (SBU) On December 4, ANH completed its second oil and gas bloc auction of 2008, receiving bids on 48 heavy oil mini-blocs in the eastern Cordillera region (Santander & Norte de Santander), Magdalena Department, Putumayo Department, and the eastern Llanos region (Meta Department). The number of blocs that received bids was one-half of the total offered, meeting the GOC target for the round. ANH Senior Advisor Jorge Alberto Arias characterized the auction to us as a success since many of the blocs received multiple bids higher than expected and the unsuccessful blocs correlated directly to those with the least amount of preliminary data.

¶3. (SBU) Arias said that ANH believes the recent decline in world oil prices had negligible impact on the auction, asserting that most of the mini-bloc prospects remained economically viable at or below current prices. (COMMENT: While local petroleum company representatives cite various factors such as infrastructure costs, long-term price estimates, and anticipated technology advances in determining the financial viability of heavy oil prospects in Colombia, when pressed most estimate world oil prices above USD 60 a barrel are necessary to ensure long-term profitability. However, they admit that the break-even point could be lower in the future and say locking in exploration rights now remains important even during the current price downswing. END COMMENT.) Alejandro Martinez, President of Colombia's National Petroleum Association echoed the view telling us that Colombia's pro-investment terms, especially vis-a-vis the region, should continue to attract considerable hydrocarbons investment even in a lower price environment.

¶ 4. (SBU) The total exploration investment committed to the 48 adjudicated blocs exceeds USD 300 million and, according to ANH Director Armando Zamora, builds on USD 4 billion in total hydrocarbon sector investment in 2008. The latest auction follows a successful round in November (reftel) and brings total adjudications (exploratory and operational) for 2008 to a record 100 contracts. Colombia has raised oil production from an average of 531,000 barrels per day (bpd) in 2007 to 623,000 in October 2008. Based upon the increase in exploration and investment, Zamora predicts Colombia will reach 700,000 bpd in 2009. ANH Senior Advisor Arias told us that the GOC plans to follow up the success of the two 2008 auctions with a Pacific Basin Round in 2009 and an offshore San Andres Basin Round in 2010. Arias said the exact schedule would depend on the completion preliminary seismic data rather than world oil prices, asserting that hydrocarbon companies take a long-term view in the bidding

decisions--focusing more the available seismic data than current oil prices.

BP: Offshore Gas Prospects Promising

¶ 5. (SBU) BP announced in late November that its recently completed seismic data from two blocs one mile offshore of Cartagena strongly indicate the presence of commercially viable gas deposits. BP Colombia President Guillermo Quintero told us the company plans to begin drilling exploratory wells in the second half of 2009 and expressed optimism that gas will be found. Quintero said BP had

invested USD 35 million in mapping and studying its offshore blocs and will partner with Petrobras and Colombian hydrocarbons parastatal Ecopetrol in developing any gas deposits discovered.

Largest Ethanol Plant Launched

¶ 6. (SBU) On December 4, the private investment group Alcol Rio Suarez announced the launch of the construction phase of new ethanol production facility located in Santander Department. When complete in 2010, the USD 130 million plant will rank as Colombia's largest and most multifunctional bioenergy facility producing 123 million liters of ethanol per year for transportation fuel blending as well as co-generate 28 megawatts of electricity from bagasse waste. The plant's distillery will also produce fertilizer from the vinasse byproduct. Drawing feedstock from 11,000 hectares of sugarcane, the company's president Michael Perdomo told us he expects the plant to generate 3,000 direct jobs.

Cooperation with Puerto Rico on Electricity

¶ 7. (SBU) On December 11, Foreign Minister Bermudez, in the presence of the Acting DCM, signed a statement of cooperation with Puerto Rico to study the feasibility of a 680-mile submarine cable from Colombia's northern coast in La Guajira Department to the island to provide an alternative to current oil-fueled electrical generation. As envisioned, the cable would rank as the world's longest, reach a depth of 3000 meters and cost at least USD 4 billion.

¶ 8. (SBU) In addition to the cable, Colombia would have to build a designated electrical generation plant in La Guajira to supply the power for transmission. Colombia's main electrical transmission company, ISA, and the Medellin Public Utilities Company (EPM) have agreed to fund the feasibility study while the Inter-American Development Bank has expressed interest in potentially supporting the project. However, the GOC will await any further decisions on the project until the completion of the study.

NICHOLS